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Report on Examination of Financial Statements

Conducted Under Contract by Holmes and Turner
Certified Public Accountants

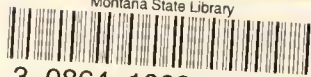
Fiscal Years Ended June 30, 1979 and 1980

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
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MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

November 1980

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the State Auditor's Office for the years ended June 30, 1979 and June 30, 1980.

The audit was conducted by Holmes and Turner, CPA's, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in dark ink, reading "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

OFFICE OF THE STATE AUDITOR

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OFFICE OF THE STATE AUDITOR
ELECTED AND ADMINISTRATIVE OFFICIALS

E.V. "Sonny" Omholt	State Auditor, Elected
Roy L. Phelps	Deputy State Auditor
Josephie A. Isaak	Administrator Fiscal Management and Control
Kathleen M. Behm	Administrator Central Payroll
R.G. "Rick" Tucker	Chief Deputy Securities Commissioner
Josephine M. Driscoll	Chief Deputy Insurance Commissioner

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Office of the State Auditor is included in the back of this report.

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Insurance department review applicable statutes pertaining to revenue recognition of examination fees, etc., and attempt to modify them to allow for timely recognition of revenue.

5

Agency Reply: Concur. See page 38.

Insurance department contact the state records committee and obtain an official determination as to the length of time that insurance examinations should be retained.

8

Agency Reply: Concur. See page 38.

Insurance department either modify their renewal form for appointments of non-resident agents to include a retaliatory fee computation or consider modifying their regulations to allow for a flat fee for non-resident appointments.

9

Agency Reply: Concur. See page 38.

Insurance department retain appointment of agent files for at least two years or from the date of the last audit.

9

Agency Reply: Concur. See page 38.

Securities department record temporary receipt numbers on the supporting documentation for broker/dealer renewals.

9

Agency Reply: Concur. See page 39.

Agency review all personnel files, separate current payroll status forms from outdated ones, and compare the current information to the report of deductions for each employee.

10

Agency Reply: Concur. See page 39.

SUMMARY OF RECOMMENDATIONS (Continued)

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<i>Agency improve their record keeping and filing procedures for terminated employees in order to properly substantiate termination pay.</i>	11
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<i>Agency issue a warrant to a terminated seasonal employee who was undercompensated for vacation accruals at the time of termination.</i>	11
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<i>Agency review it's record keeping procedures for employee leave and take the necessary steps to assure that employee leave is properly summarized for each employee.</i>	12
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<i>Agency strengthen its internal controls associated with travel expenditures by voiding travel receipts upon payment, requiring travel advances to be signed and requiring all travel requests to be authorized in advance.</i>	13
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<i>Agency review their internal controls associated with accruals and take the appropriate action to assure that complete and accurate accruals are made at year end.</i>	14
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<i>Agency review their internal controls associated with disbursements to local cities and towns and take the appropriate action to assure that accurate disbursements are made.</i>	14
<u>Agency Reply:</u> Concur. See page 40.	
<i>Agency thoroughly review and document all journal entries before they are inputted to SBAS.</i>	15
<u>Agency Reply:</u> Concur. See page 40.	
<i>Auditor's office fully document in their files any over and underpayment of funds to the various counties for payments made in lieu of taxes on federally-owned land.</i>	16
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Agency review their filing system for distributions made to counties and segregate the workpapers and documentation by fiscal year. 16

Agency Reply: Concur. See page 41.

Agency contact the Department of Administration and review their responsibilities associated with the General Warrant Revolving Account. 18

Agency Reply: Concur. See page 41.

Agency document their degree of responsibility associated with the General Warrant Revolving Account. 18

Agency Reply: Concur. See page 41.

Agency perform the necessary accounting procedures to eliminate meaningless account balances with the non-consolidated general ledger for the general warrant revolving fund. 18

Agency Reply: Concur. See page 41.

Agency capitalize the cost of freight associated with the purchase of fixed assets. 19

Agency Reply: Concur. See page 41.

Agency record the estimated value of donated fixed assets in their property records and properly identify the assets involved. 19

Agency Reply: Concur. See page 42.

COMMENTS

INTRODUCTION AND BACKGROUND

The Office of the State Auditor was created in 1885. The State Auditor is an elected official who serves for a four year term. In addition to his normal duties, the State Auditor also serves as the Ex-Officio Commissioner of Insurance and Securities, Director of Central Payroll and a member of the State Land Board, State Canvas Board, the State Law Library Board, and State Hail Insurance Board.

The activities of the State Auditor's Office are divided into five major program areas. The Management and Control Program is responsible for maintaining balances for all accounting entities of the State of Montana. In addition, this program processes State warrants for direct mailing, maintains a record of warrants issued, cashed or outstanding and maintains the State Auditor's Uncleared Collections Account.

The Central Payroll Program is responsible for installing and operating a uniform payroll system for State government. The Program provides for uniform paydays for State employees and establishes and maintains a payroll roster for all employees in the system.

The Administrative Support Program is responsible for providing administrative support for all of the programs under the Auditor's jurisdiction. In addition, this program acts as a liaison between the Auditor and the general public.

The Insurance Regulation and Licensing Program is charged with the administration and execution of State insurance laws and regulations. All aspects of insurance, with the exception of worker's compensation are

regulated by this program.

The Security Regulation and Licensing Program is charged with the administration of the provisions of the Securities Act of Montana. This act provides for the registration of securities which are offered for sale in Montana and for the registration of securities salesmen, broker-dealers and investment advisors both in and out of the State of Montana. In addition, this program exchanges information with other states and the U.S. Securities and Exchange Commission regarding security activities and promoters.

The local Assistance Program provides for the distribution of police and firemen's retirement funds to local governmental entities.

The State Auditors Office employs approximately 50 employees and expends approximately 1.1 million dollars per year to achieve these objectives.

We performed a financial/compliance audit of the State Auditor's Office for the two fiscal years ended June 30, 1980. The objectives of the audit were to: (1) determine if the agency's financial statements present fairly its financial position and results of operations for the two fiscal year periods; (2) determine if the agency complied with applicable laws and regulations; (3) make recommendations for the improvement in the management and internal controls of the agency. Our examination was not intended to review the economy and efficiency of the agency, nor did we attempt to determine whether the desired results or benefits were achieved by the various program activities.

PRIOR AUDIT REVIEW

The last audit of the State Auditor's Office was conducted for the fiscal year ended June 30, 1978. The audit report contained 48 recommendations designed to strengthen the internal controls of the agency. At that time, the agency concurred with 29 of these recommendations, did not concur with 17,

partially concurred with one, and required further explanation for one other.

Our review determined that the agency has taken no action with regard to 15 of the 17 recommendations in which they did not concur. The agency has taken corrective action for the remaining two recommendations in which they did not concur. These recommendations pertained to a request for additional funds necessary to complete a remodeling project and a realignment of job descriptions to segregate access to blank warrants.

In regard to the 29 recommendations in which the agency concurred, corrective action has been taken for 25 of these recommendations. The remaining four are either not deemed necessary or will be implemented if the need arises.

The remaining two recommendations in which the agency either partially concurred or required further explanation have both been implemented. Following is a summary of the recommendations from the prior audit report which indicates their disposition:

<u>Agency Response</u>	<u>Recommendations</u>	<u>Implemented</u>	<u>No Action Taken</u>
Concur	29	25	4
Did not Concur	17	2	15
Partially Concurred	1	1	
Required Explanation	<u>1</u>	<u>1</u>	<u>—</u>
	<u>48</u>	<u>29</u>	<u>19</u>

INTERNAL CONTROL

As part of our examination we reviewed and tested the Agency's system of internal control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning

and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and evaluation of the Agency's system of internal accounting control for fiscal years 1978-79 and 1979-80 would not necessarily disclose all weaknesses in the system because it was based upon selective tests of accounting records and related data. We found no material internal control weaknesses. Report comments following relate to management problems, other internal control weaknesses, and department noncompliance with applicable statutes.

UNCLEARED COLLECTIONS

In order to expedite deposits to the State Treasury, the State Auditor's Office utilizes an uncleared collections account to record all cash receipts from both Securities and Insurance fees. This system allows cash receipts to be timely deposited to the State Treasurer before the actual purpose of the receipt is known. Once the purpose is known, the funds are officially receipted and transferred from the uncleared collections account to the appropriate account.

We examined the internal controls associated with uncleared collections and found them to be adequate. We also tested a representative sample of transactions for each year under examination and we noted no discrepancies in regard to funds received or transferred.

One area of potential problem, however, is in regard to the length of time that funds remain in the uncleared collections account before they are officially receipted. As of June 30, 1980, 21 individual receipts had been in the uncleared collections account for a period in excess of six months. In addition, numerous receipts have been in the account for a period between one and six months.

This timing problem relates primarily to the Insurance Department and can be attributed to the statutes which govern this area. Insurance regulations dictate that certain receipts, such as agent examination fees, are not considered earned until the agent either passes a written examination or a period of six months has elapsed from the date of application. This differs substantially from the Securities Department where funds are considered earned upon their receipt. The rationale is that the same amount of work and effort is required by the department no matter whether the application is approved or denied.

In our opinion, the Insurance Department should attempt to modify their regulations to allow funds to be considered earned upon their receipt. This would not only eliminate a majority of uncleared collections which are not officially receipted for an extended time, but it would also allow the Insurance Department to officially receipt funds which it rightfully deserves.

RECOMMENDATION #1

We recommend that the Insurance Department review applicable statutes pertaining to revenue recognition of examination fees, etc., and attempt to modify them to allow for timely recognition of revenue.

CASH RECEIPTS AND REVENUE

Once the identity of cash receipts becomes known, they are transferred

from the uncleared collections account and recorded as revenue in the appropriate fund. We examined the internal controls associated with revenue recognition and determined that the controls were adequate. However, during the course of our examination we noted a change in accounting method for revenue recognition which has a material impact on the Earmarked Revenue Fund.

The State Auditor's Office collects a substantial amount of revenue through both the Insurance and Securities Departments. The Insurance Department collects funds from company and individual license fees, annual company filing fees and taxes on insurance premiums. A portion of the revenue collected from taxes on insurance premiums is earmarked for distribution to cities and towns to fund retirement and disability pensions and training for police and fire departments.

The Securities Department similarly collects revenue from the registration of securities offered for sale in the State, fees for the registration of individuals doing business in the State and annual filing fees. In addition, the State Auditor collects service charges from State agencies for processing non general fund payroll.

During fiscal year 1978-79, \$1,700,000 and \$1,300,000 was transferred from the uncleared collections account to the Firemen's Disability and Police Earmarked Revenue Funds respectively. During fiscal year 1979-80 revenue recognition procedures were changed and no funds were transferred to these accounts. This has the effect of substantially understating revenue in the Earmarked Revenue Funds for fiscal year 1979-80 and has caused us to issue an adverse opinion regarding the fairness of the funds financial presentation. (See Auditor's opinion section page 20).

In fairness, the reason why the revenue recognition procedures have been changed relate to the fact that in the past, the revenue which was recognized did not correspond with the expenditures which were made during the same fiscal year. Revenue has been recognized in one year and expended in the next. In order to alleviate this problem, the Auditor's Office elected to not recognize revenue during fiscal year 1979-80 so that it could subsequently be recognized in fiscal year 1980-81, the year the expenditures would be made. Although this results in an adverse financial presentation during fiscal year 1979-80 we concur with the change in revenue recognition procedures since in future years it will result in proper matching of revenue and expenditures within the same fiscal period.

LICENSING PROCEDURES

We examined the internal controls associated with licensing procedures for both the Securities and Insurance Departments. Our examination was also designed to test a representative sample of individual transactions pertaining to licensing and registration of investment salesmen, broker/dealers, security issues and insurance agent licenses, appointments of agents and companies. In addition, we tested all areas for compliance with applicable laws and regulations.

Our examination determined that the internal controls associated with licensing procedures were adequate and the agency has complied with applicable laws and regulations except for the following.

The Insurance Department is responsible for administering agent examinations for various types of insurance. Currently, these examinations are destroyed 30 days after the examination is taken. This quick destruction process does not allow sufficient time to review the correctness of the grading procedures and may be in violation of State document retention

requirements. This same situation was pointed out in the prior audit report. However, management did not concur with the recommendation to retain the examinations for audit.

In our opinion, the destruction of the examinations does not expose the grading process to proper audit procedures and therefore the possibility of improper grading procedures could go undetected.

RECOMMENDATION #2

We recommend that the Insurance Department contact the State records committee and obtain an official determination as to the length of time that insurance examinations should be retained.

During fiscal year 1978-79 renewal fees for appointment of agents was \$5 for residents and \$100 for non-residents. In fiscal year 1979-80, the fee structure for non-residents was amended so that the appointment fee is now the greater of \$5 or the amount charged in the company's domicile state. Due to the fact that other state's fees are constantly changing, there is not an effective way to assure that the fees being remitted are actually the higher of the two amounts. The Insurance Department has attempted to develop effective controls by requesting current fee structures from each state. However, many states have not responded to their inquiry. As a result, a current list of fees charged in other states has not been completely compiled and there is no method to assure that the proper fee has been remitted. This, therefore, creates the possibility that revenue to the State of Montana is lower than what it should be.

In our opinion, the situation just described has placed the monitoring of the fee structure for non-resident agents under the control of insurance

companies which are located outside of the State of Montana.

RECOMMENDATION #3

We recommend that the Insurance Department either modify their renewal form for appointments of non-resident agents to include a retaliatory fee computation or consider modifying their regulations to allow for a flat fee for non-resident appointments.

During the course of our examination it was determined that appointment of salesman files have been destroyed for the period prior to June 1, 1979. Although we have been able to satisfy ourselves that procedures for appointments of salesman are adequate, it is our opinion that files of this nature should be retained until they have been exposed to audit.

RECOMMENDATION #4

We recommend that the Insurance Department retain appointment of agent files for at least two years or from the date of the last audit.

The Securities Department currently records temporary receipt numbers on supporting documentation for all areas under their jurisdiction except for broker/dealer renewals. This allows for an audit trail and ready reference between the application or renewal and the actual collection of funds. In our opinion, the documentation procedures which are applied to other areas are adequate and should also be applied to the area of broker/dealer renewals.

RECOMMENDATION #5

We recommend that the Securities Department record temporary receipt numbers on the supporting documentation for broker/dealer renewals.

PAYROLL

We examined the controls associated with in-house payroll procedures and found them to be adequate except for minor weaknesses. We also tested the individual transactions for proper payroll preparation and execution. A representative sample of employees were tested for gross pay, hours worked, and proper authorized deductions. Terminated employees were reviewed for proper termination pay and to assure that they were removed from subsequent payrolls. Payroll accruals were also reviewed for reasonableness.

In our opinion, payroll procedures were adequate and complied with applicable rules and regulations except as follows.

We reviewed the agency's personnel files for proper payroll status forms. We found that the personnel files contained numerous payroll status forms which were outdated and superceded. The practice of combining both current and outdated payroll status forms in one file makes it difficult to determine which forms are current and the reconciliation to payroll deduction reports difficult.

RECOMMENDATION #6

We recommend that the agency review all personnel files, separate current payroll status forms from outdated ones, and compare the current information to the report of deductions for each employee.

We also reviewed the personnel files of terminated employees and determined that in some instances, the files were incomplete. Payroll termination forms, master employee records and attendance records were not always available to document and support termination pay.

RECOMMENDATION #7

We recommend that the agency improve their record keeping and filing procedures for terminated employees in order to properly substantiate termination pay.

In one instance, we noted where longevity records were not maintained for an employee. This was an oversight when the employee was hired and has already been corrected.

EMPLOYEE LEAVE

We reviewed the internal controls associated with employee leave and tested a representative sample of individual transactions to determine if vacation, sick and compensatory leave was accurate. We determined that controls were adequate and the agency has complied with applicable rules and regulations excepts as follows.

One seasonal employee was not paid the correct vacation pay upon termination. This occurred because the Auditor's Office did not realize that seasonal employees were not required to work the six month requirement period before they could receive their vacation accruals. In this instance the employee was underpaid by \$219.35.

RECOMMENDATION #8

We recommend that the agency issue a warrant to a terminated seasonal employee who was undercompensated for vacation accruals at the time of termination.

For a representative sample of employees, we reviewed the accuracy of the posting procedures between the employee's request for leave (Form P-1)

and the employee's leave record (Form P-2). Our examination determined that in several instances the postings were made in error and the amounts reflected on the employee's leave record were incorrect.

In most instances the differences were immaterial. However, in one instance the differences amounted to the following:

	<u>Sick Leave</u>		<u>Vacation Leave</u>	
	<u>1979</u>	<u>1980</u>	<u>1979</u>	<u>1980</u>
Hours used monthly summary	96	200	56	149
Hours used annual summary	<u>72</u>	<u>112</u>	<u>64</u>	<u>205</u>
Differences	<u>24</u>	<u>88</u>	<u>(8)</u>	<u>(56)</u>

In our opinion, these are material differences and indicate the need for improved controls in the employee leave area. It should also be pointed out that termination pay for unused vacation and sick leave is calculated from the annual summaries and in the instance shown above would result in an overpayment to the involved individual should she terminate.

RECOMMENDATION #9

We recommend that the agency review its record keeping procedures for employee leave and take the necessary steps to assure that employee leave is properly summarized for each employee.

TRAVEL EXPENDITURES

We reviewed the internal controls associated with travel expenditures and tested a representative sample of individual transactions to determine the reasonability of the expenditures. In our opinion, the controls were adequate and the expenditures were reasonable. Some weaknesses which were noted, however,

pertain to travel receipts which are not voided upon payment, travel advances which are not signed by requesting employees, and the lack of appropriate travel authorization forms.

In our opinion, the internal controls associated with employee travel expenditures would be strengthened if travel receipts were voided upon payment. This would reduce the possibility of a double payment being made from the same receipt. In addition, travel advances should be signed and appropriate authorization should be obtained by the employee before the trip begins. This can only serve to strengthen the internal controls associated with travel expenditures.

RECOMMENDATION #10

We recommend that the agency strengthen it's internal controls associated with travel expenditures by voiding travel receipts upon payment, requiring travel advances to be signed and requiring all travel requests to be authorized in advance.

GENERAL EXPENDITURES AND ACCRUALS

We reviewed the internal controls associated with general expenditures and accruals and found those controls to be adequate. However, in one instance, due to a misunderstanding of proper procedures, a material amount was accrued which has had a substantial effect upon the financial presentation of the general fund of the agency. As a result, the expenditures in the general fund have been materially overstated, therefore causing us to issue an adverse opinion regarding the financial presentation of the general fund. (See Auditor's opinion section page 20).

This problem relates to a two year, \$255,000 appropriation which the Central Payroll Division received to upgrade it's payroll data processing system. This appropriation was for the biennium of fiscal years 1980-81. As of June 30, 1980 the department had expended approximately 25% of the appropriated amount. However, at that time an accrual was made to expend the remaining amount of the appropriation even though the services had not been provided. This has the effect of overstating expenditures for contracted services by \$183,211.00 during fiscal year 1980.

During our review of accrued expenditures we also noted certain expenditures which should have been accrued at year end. Although these expenditures were minor in nature, it indicates a need for a general strengthening of the internal controls related to expenditure accruals.

RECOMMENDATION #11

We recommend that the agency review their internal controls associated with accruals and take the appropriate action to assure that complete and accurate accruals are made at year end.

We reviewed expenditures made to cities and towns for police reserve pension and training funds and found that they were not completely accurate. In some instances, towns with no police departments were receiving funds they were not entitled to or the wrong amounts were being disbursed. This problem has been noted by the agency and the discrepancies are being corrected. However, it points out a general need for improved internal controls in this area.

RECOMMENDATION #12

We recommend that the agency review their internal controls associated

with disbursements to local cities and towns and take the appropriate action to assure that accurate disbursements are made.

We also reviewed a situation where due to an incorrect journal entry, the general fund expenditures were overstated by \$4,840.68 and the Central Payroll Operating Revolving Account expenditures were understated by the same amount. We believe this situation occurred because journal entries are not thoroughly reviewed before they are inputted to SBAS.

RECOMMENDATION #13

We recommend that the agency thoroughly review and document all journal entries before they are inputted to SBAS.

FEDERAL MONIES DISTRIBUTION PROCEDURES

The State Auditor's Office receives monies from the U.S. Department of Agriculture in lieu of taxes on federally-owned land. The Auditor then distributes these funds to the counties within the State based upon the amount of federally-owned land in each county.

We reviewed the internal controls associated with Federal Monies distribution procedures and also tested the distributions for accuracy. We were able to satisfy ourselves that the controls were adequate and the distributions were fair except for the following.

In fiscal year 1979-80, Silver Bow County and Jefferson County were overpaid \$1,114.38 and \$3,524.64 respectively. In addition, Lincoln County was underpaid by \$4,639.02. This situation occurred due to an incorrect estimate by the Department of Agriculture in regard to the total fees which would be collected.

In reviewing the applicable regulations, it was determined that the over and under payments were not a significant problem since the regulations allow for adjustments to be made in future periods when this type of situation occurs. However, it is our opinion that the internal controls associated with this area could be strengthened if these over-and-under payments were documented in the files so that they would not be overlooked when the next payment is made.

RECOMMENDATION #14

We recommend that the Auditor's Office fully document in their files any over and underpayment of funds to the various counties for payments made in lieu of taxes on federally-owned land.

During our review of this area we noted that the general condition of the filing system and records relating to the distribution of federal money were not consistent with the standards maintained by the other departments and program areas within the Auditor's Office. Documentation for several years activity were comingled with no apparent organization. This differs substantially from the other areas we examined which for the most part were extremely organized and well kept.

RECOMMENDATION #15

We recommend that the agency review their filing system for distributions made to counties and segregate the workpapers and documentation by fiscal year.

REVOLVING ACCOUNTS

The Legislative Auditor performed an application review for SBAS,

Central Payroll and the Warrant Writing System for both fiscal years 1979 and 1980. This review was designed to evaluate the controls necessary to predict the reliability of these various applications. However, the review did not include detailed tests of the transactions necessary to express an opinion on the financial statements relating to these activities. For the Central Payroll Revolving Account, the Legislative Auditor did test the controls to assure that deductions were properly made from an individual's pay and found those controls to be adequate. However, no tests of the actual accumulation and remittance to appropriate federal and State agencies was made.

In conjunction with our examination, we tested the Central Payroll Revolving Account to assure that the accumulation and remittance procedures were adequate and correct. Our examination determined that the controls were adequate and the proper amounts have been remitted. In addition, we tested the transactions in the warrant writing system and found no discrepancies.

One problem which bears mention, however, pertains to the General Warrant Revolving Account. This account is jointly administered by the Department of Administration and the State Auditor's Office. During our review it was determined that a degree of confusion exists in regard to who has the responsibility to monitor the consolidated general ledger of this fund.

Currently, the State Auditor's Office receives a non-consolidated general ledger, on a monthly basis, for their portion of the activity through this fund. This is a meaningless report as far as they are concerned since the balances are not closed out at the end of each year. For example, the fund balance in this account as of June 30, 1980 was in excess of 2.5 billion dollars. As a result, the Auditor's Office does not monitor this report.

The Department of Administration, on the other hand, receives the consolidated general ledger and performs the necessary reconciliation procedures.

The consolidated general ledger of the warrant writing fund indicates that the administering agency is the Department of Administration. However, the State Auditor's Office is required to reflect the fund within their financial statements.

In our opinion, the administrative controls associated with the general warrant revolving fund are inadequate since it is difficult to determine exactly which agency is responsible for administering the fund.

RECOMMENDATION #16

We recommend that the agency contact the Department of Administration and review their responsibilities associated with the General Warrant Revolving Account.

RECOMMENDATION #17

We recommend that the agency document their degree of responsibility associated with the General Warrant Revolving Account.

RECOMMENDATION #18

We recommend that the agency perform the necessary accounting procedures to eliminate meaningless account balances within the non-consolidated general ledger for the General Warrant Revolving Fund.

PROPERTY, PLANT AND EQUIPMENT

We reviewed the agency's internal controls associated with property, plant and equipment and found them to be adequate. We did notice one instance

however, where the freight costs associated with the purchase of equipment was not capitalized in accordance with applicable regulations. In addition, certain items which were transferred from other state agencies at no cost to the Auditor's Office have not been properly identified and included in the fixed asset inventory. Although both of these items have the effect of understating the value of fixed assets, the effect is not material.

RECOMMENDATION #19

We recommend that the agency capitalize the cost of freight associated with the purchase of fixed assets.

RECOMMENDATION #20

We recommend that the agency record the estimated value of donated fixed assets in their property records and properly identify the assets involved.

CONCLUSION

Included in the body of this report are twenty recommendations designed to improve the internal controls associated with various aspects of the State Auditor's Office. Other than these items, it is our opinion that the agency does a fine job in carrying out the duties and responsibilities which it is assigned. We were particularly impressed with their filing systems and overall organization which, in most cases, were excellent.

We would like to thank the State Auditor and his staff for the excellent cooperation and consideration which was extended to us throughout the course of our examination.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

WILLIAM B. HOLMES, C.P.A.
ERNEST J. TURNER, C.P.A.
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The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the State of Montana, Office of the State Auditor, as of June 30, 1980 and the related statements of revenue, expenditures, and changes in fund balances for the fiscal years ended June 30, 1979 and 1980. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

At June 30, 1980, the Auditors Office erroneously accrued \$183,211.00 of expenditures associated with the upgrade of its central payroll data processing system. This has the effect of overstating the liabilities and expenditures of the General Fund for the fiscal year ended June 30, 1980 by that amount. In addition, during fiscal year 1980, the Auditor's Office changed the revenue recognition procedures associated with the Earmarked Revenue Fund and as a result, has understated revenue by \$4,000,000 during fiscal year 1980.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the aforementioned financial statements of the General Fund and Earmarked Revenue Fund to not present fairly, in conformity with generally accepted accounting principles, the financial position at June 30,

1980, and the results of operations of such funds for the two fiscal years then ended. However, in our opinion, the financial statements of the Federal and Private Revenue Fund, Internal Service Fund, Trust and Agency Funds and General Fixed Assets present fairly the financial position, at June 30, 1980, and the results of operations of such funds and account groups for the two fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The accompanying schedules of Expenditures by Object, Supplemental Information and the column on the accompanying Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balances captioned "Memorandum Only", are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. This information has been subjected to the tests and other auditing procedures applied in the examination of the accompanying financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole except as this information relates to the circumstances stated in paragraph 2 of this opinion.

Holmes & Turner

October 7, 1980
Bozeman, Montana

STATE OF MONTANA
OFFICE OF THE STATE AUDITOR
ALL FUNDS AND ACCOUNT GROUPS
BALANCE SHEET
JUNE 30, 1980

	<u>Governmental Funds</u>	
		<u>Special Revenue Fund</u>
	<u>General Fund</u>	<u>Earmarked Revenue Fund</u>
<u>ASSETS</u>		
Cash in Treasury		\$1,029,034
Accounts Receivable - Dishonored Checks		
Appropriation Authority Available to		
Pay Accrued Expenditures	\$238,673	
Equipment		
Total Assets	<u>\$238,673</u>	<u>\$1,029,034</u>
 LIABILITIES AND FUND BALANCES/ RETAINED EARNINGS		
Accountability for Advances	\$ 2,048	
Accrued Expenditures	236,625	
Receipts Collected in Advance		
Uncleared Collections		
Amount Held for Payment of State-		
Dated Warrants		
Amount Held for Payment of State		
Warrants		
Total Liabilities	<u>238,673</u>	<u>-0-</u>
Investment in General Fixed Assets		
Fund Balance/Retained Earnings	<u>-0-</u>	<u>1,029,034</u>
Total Liabilities, Fixed Assets, Fund Balance/Retained Earnings	<u>\$238,673</u>	<u>\$1,029,034</u>

See accompanying notes to financial statements.

<u>Fiduciary Funds</u>		<u>Proprietary Funds</u>	<u>Account Groups</u>	<u>Totals</u> (Memorandum Only)
<u>Trust and Agency Funds</u>				
<u>Federal and Private Grant Clearance Fund</u>	<u>Agency Fund</u>	<u>Internal Service Funds</u>	<u>General Fixed Assets</u>	
\$4,033,910 35	\$372,430	\$3,113,637		\$8,549,011 35
				238,673
			\$150,941	150,941
<u>\$4,033,945</u>	<u>\$372,430</u>	<u>\$3,113,637</u>	<u>\$150,941</u>	<u>\$8,938,660</u>
				\$ 2,048
				236,625
\$4,000,000 33,945				4,000,000 33,945
	\$372,430			372,430
		\$3,081,244		3,081,244
<u>4,033,945</u>	<u>372,430</u>	<u>3,081,244</u>	<u>-0-</u>	<u>7,726,292</u>
			\$150,941	150,941
<u>-0-</u>	<u>-0-</u>	<u>32,393</u>	<u>-0-</u>	<u>1,061,427</u>
<u>\$4,033,945</u>	<u>\$372,430</u>	<u>\$3,113,637</u>	<u>\$150,941</u>	<u>\$8,938,660</u>

STATE OF MONTANA
OFFICE OF THE STATE AUDITOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>General Fund</u>			<u>Earmarked Revenue Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:						
Insurance Licenses, Fees and Premium Taxes	\$10,732,342	\$10,748,226	\$ 15,884	\$2,275,000	\$3,619,082	\$1,344,082
Investment Licenses and Fees	140,000	231,651	91,651			
Income Collections and Transfers						
Federal Assistance						
	<u>10,872,342</u>	<u>10,979,877</u>	<u>107,535</u>	<u>2,275,000</u>	<u>3,619,082</u>	<u>1,344,082</u>
EXPENDITURES:						
Management and Control	296,052	279,204	16,848			
Central Payroll	137,027	128,277	8,750			
Administrative Support	143,012	135,509	7,503			
Insurance Department	403,554	381,941	21,613			
Investment Department	81,366	80,772	594			
Local Police Pension Funds				1,600,000	1,216,002	383,998
Local Fireman's Pension Funds				600,000	451,280	148,720
Local Fireman's Disability Funds				1,300,000	1,007,131	292,869
Distributions to Counties						
	<u>1,061,011</u>	<u>1,005,703</u>	<u>55,308</u>	<u>3,500,000</u>	<u>2,674,413</u>	<u>825,587</u>
Excess of Current Revenues Over (Under) Current Expenditures	9,811,331	9,974,174	162,843	(1,225,000)	944,669	2,169,669
Other Financing Sources (Uses)						
Prior Year Adjustments	518,780	518,780	-0-	(494,094)	(494,094)	-0-
Support From (To) the General Fund	<u>(10,330,111)</u>	<u>(10,492,954)</u>	<u>(162,843)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenue Over (Under) Expenditures and Other Sources (Uses)	-0-	-0-	-0-	(1,719,094)	450,575	2,169,669
Fund Balance July 1, 1978	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,423,363</u>	<u>3,423,363</u>	<u>-0-</u>
Fund Balance June 30, 1979	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$1,704,269</u>	<u>\$3,873,938</u>	<u>\$2,169,669</u>

See accompanying notes to financial statements.

Federal and Private Revenue Funds			Internal Service Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
						\$13,007,342	\$14,367,308	\$1,359,966
						140,000	231,651	91,651
						75,600	73,973	(1,027)
\$9,000,000	\$8,258,492	\$(741,508)	\$75,000	\$73,973	\$(1,027)	9,000,000	8,258,492	(741,508)
9,000,000	8,258,492	(741,508)	75,000	73,973	(1,027)	22,222,342	22,931,424	709,082
						296,052	279,204	16,848
						212,027	202,850	9,177
						143,012	135,509	7,503
						403,554	381,941	21,613
						81,366	80,772	594
						1,600,000	1,216,002	383,998
						600,000	451,280	148,720
						1,300,000	1,007,131	292,869
9,000,000	8,258,492	741,508				9,000,000	8,253,492	741,508
9,000,000	8,258,492	741,508	75,000	74,573	427	13,635,011	12,013,181	1,622,830
-0-	-0-	-0-	-0-	(600)	(600)	8,585,331	10,918,243	2,331,912
-0-	-0-	-0-	-0-	-0-	-0-	24,686	24,686	-0-
-0-	-0-	-0-	-0-	-0-	-0-	(10,330,111)	(10,492,954)	(162,843)
-0-	-0-	-0-	-0-	(600)	(600)	(1,719,094)	449,975	2,169,069
-0-	-0-	-0-	25,842	25,842	-0-	3,449,205	3,449,205	-0-
\$ -0-	\$ -0-	\$ -0-	\$25,842	\$25,242	\$ (600)	\$ 1,730,111	\$ 3,899,180	\$2,169,069

STATE OF MONTANA
OFFICE OF THE STATE AUDITOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	<u>General Fund</u>			<u>Earmarked Revenue Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:						
Insurance Licenses, Fees and Premium Taxes	\$12,100,000	\$11,031,794	\$(1,068,206)	\$3,412,000	\$ 684,276	\$(2,727,724)
Investment Licenses and Fees	230,000	345,883	115,883			
Income Collections and Transfers						
Federal Assistance						
	<u>12,330,000</u>	<u>11,377,677</u>	<u>(952,323)</u>	<u>3,412,000</u>	<u>684,276</u>	<u>(2,727,724)</u>
EXPENDITURES:						
Management and Control	308,794	300,746	8,048			
Central Payroll	364,925	364,925	-0-			
Administrative Support	156,644	154,340	2,304			
Insurance	429,615	429,232	383			
Investment	122,069	114,571	7,498			
Local Police Pension Funds				1,356,000	1,299,456	56,544
Local Fireman's Pension Funds				600,000	528,431	71,569
Local Fireman's Disability Funds				1,456,000	1,456,000	-0-
Distributions to Counties						
	<u>1,382,047</u>	<u>1,363,814</u>	<u>18,233</u>	<u>3,412,000</u>	<u>3,283,887</u>	<u>128,113</u>
Excess of Current Revenues Over (Under) Current Expenditures	10,947,953	10,013,863	(934,090)	-0-	(2,599,611)	(2,599,611)
Other Financing Sources (Uses)						
Prior Year Adjustments	(14,130)	(14,130)	-0-	(245,293)	(245,293)	-0-
Support From (To) the General Fund	<u>(10,933,823)</u>	<u>(9,999,733)</u>	<u>934,090</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues Over (Under) Expenditures and Other Sources (Uses)	-0-	-0-	-0-	(245,293)	(2,844,904)	(2,599,611)
Fund Balance July 1, 1979	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,873,938</u>	<u>3,873,938</u>	<u>-0-</u>
Fund Balance June 30, 1980	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$3,628,645</u>	<u>\$1,029,034</u>	<u>\$(2,599,611)</u>

See accompanying notes to financial statements.

Federal and Private Revenue Funds			Internal Service Funds			Totals (Memorandum Only)		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
						\$15,512,000	\$11,716,070	\$(3,795,930)
						230,000	345,883	115,883
						110,810	100,749	(61)
<u>\$9,460,390</u>	<u>\$9,460,390</u>	<u>\$ -0-</u>	<u>\$110,810</u>	<u>\$110,749</u>	<u>\$ (61)</u>	<u>9,460,390</u>	<u>9,460,390</u>	<u>-0-</u>
<u>9,460,390</u>	<u>9,460,390</u>	<u>-0-</u>	<u>110,810</u>	<u>110,749</u>	<u>(61)</u>	<u>25,313,200</u>	<u>21,633,092</u>	<u>(3,680,108)</u>
						308,794	300,746	8,048
						475,735	470,833	4,902
						156,644	154,340	2,304
						429,615	429,232	383
						122,069	114,571	7,498
						1,356,000	1,299,456	56,544
						600,000	528,431	71,569
<u>9,460,390</u>	<u>9,460,390</u>	<u>-0-</u>				<u>1,456,000</u>	<u>1,456,000</u>	<u>-0-</u>
<u>9,460,390</u>	<u>9,460,390</u>	<u>-0-</u>	<u>110,810</u>	<u>105,908</u>	<u>4,902</u>	<u>9,460,390</u>	<u>9,460,390</u>	<u>-0-</u>
						<u>14,365,247</u>	<u>14,213,999</u>	<u>151,248</u>
-0-	-0-	-0-	-0-	4,841	4,841	10,947,953	7,419,093	(3,528,860)
-0-	-0-	-0-	2,310	2,310	-0-	(257,113)	(257,113)	-0-
-0-	-0-	-0-	-0-	-0-	-0-	<u>(10,933,823)</u>	<u>(9,999,733)</u>	<u>934,090</u>
-0-	-0-	-0-	2,310	7,151	4,841	(242,983)	(2,837,753)	(2,594,770)
-0-	-0-	-0-	25,242	25,242	-0-	<u>3,899,180</u>	<u>3,899,180</u>	<u>-0-</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 27,552</u>	<u>\$ 32,393</u>	<u>\$4,841</u>	<u>\$ 3,656,197</u>	<u>\$ 1,061,427</u>	<u>\$(2,594,770)</u>

OFFICE OF THE STATE AUDITOR
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1979 and 1980

NOTE 1. ORGANIZATION

The Office of the State Auditor is an agency of the State of Montana. Its operations are recorded in the following funds:

General Fund

The General Fund is an appropriated fund used to account for estimated and actual revenues received from license fees and premium taxes received by the investment and insurance divisions. In addition this fund is used to account for the appropriations and expenditures of the State Auditor's Office. The General Fund of the State Auditor's Office is a sub-entity of the Statewide General Fund. The General Fund as disclosed in the financial statements represents that portion of the Statewide General Fund administered by the State Auditor's Office. At year end, any remaining cash balance in the General Fund is transferred to the Statewide General Fund cash balance.

Earmarked Revenue Fund

The Earmarked Revenue Fund consists of the following three funds:

Police Earmarked Revenue Fund: The Police Earmarked Revenue Fund is an appropriated fund used to account for a portion of revenues from certain insurance premium taxes as specified by statute. Such amounts are used to make payments to qualifying cities and towns for local police retirement funds.

Firemen's Disability Earmarked Revenue Fund: The Firemen's Disability Earmarked Revenue Fund is an appropriated fund used to account for revenues from premium taxes on specific types of risk insurance sufficient to meet statutory requirements. Such funds are used to make payments to fire department relief associations for their disability and pension funds.

Pension Adjustment for Retired Firemen Fund: The Pension Adjustment for Retired Firemen Fund is an appropriated fund established January 1, 1976 to allow every fire department relief association to pay firemen retired before July 1, 1973 a monthly compensation of not less than one half the regular monthly salary paid to a newly confirmed active fireman of that city or town. Revenue for this fund results from premium taxes on fire risk insurance in amounts necessary to conform to provisions of the establishing statute. Such revenues are deposited directly into this fund under the terms of the statute. Any excess of revenues over local assistance expenditures of this fund are added to the fund balance by statute and do not revert to the General Fund until there are no surviving firemen as defined by the statute eligible for benefits.

Federal and Private Grant Clearance Fund

State Auditor Uncleared Collections Fund: The State Auditor Uncleared Collections Fund is a nonappropriated fund used to account for all revenues from insurance and investment licenses and fees, and insurance premium taxes, except those deposited directly to the Pension Adjustment for Retired Firemen Fund. Amounts are initially deposited in this account until officially receipted. Balances are then transferred to the General Fund. The State Auditor makes annual estimates of the amounts due police and fire department relief associations, and transfers such funds as may be required from the General Fund to the Police and Firemen's Earmarked Revenue Accounts. The remaining balance in this account is required to be transferred to the General Fund at fiscal year end.

Internal Service Fund

The Internal Service Fund consists of the following three funds:

Central Payroll Revolving Fund: The Central Payroll Revolving Fund is a

nonappropriated fund used to account for payroll and employee benefits paid on behalf of various State agencies. Amounts disbursed from this fund are obtained from transfers from the various State agencies.

Central Payroll Operating Revolving Fund: The Central Payroll Operating Revolving Fund is an appropriated fund used to account for revenue and general operating expenses of the central payroll system. Revenues for this fund are obtained from service charges to various State agencies.

General Warrant Revolving Fund: The General Warrant Revolving Fund is a nonappropriated fund used to record warrants disbursed on behalf of other State agencies by the State Auditors' Office. Amounts of cash on deposit with the State Treasurer to cover warrants written are recorded in the Treasurer's Cash Accountability Fund, a subsidiary fund of the Department of Administration, State Treasurer, the Administrative Agency of Treasurer's Cash for all State agencies. Amounts relating to approved appropriated expenditures are transferred from various State agencies to Treasurer's Cash Accountability to cover warrants written by the State Auditor on behalf of the agencies. Cash on deposit with the State Treasurer and the corresponding liability for outstanding warrants are shown on the financial statements of the State Treasurer.

Agency Fund

Stale-Dated Warrant Fund: The Stale-Dated Warrant Fund is a nonappropriated agency fund used to account for stale warrants that are outstanding more than one year.

Federal and Private Revenue Fund

Forest Reserve Fund: The Forest Reserve Fund is a nonappropriated fund used to account for federal grants for schools and roads made to individual counties in the State of Montana having national forests. Amounts are distributed to individual counties in which the forest is located on a prorated acreage basis.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements of the Office of the State Auditor were prepared from the Statewide Budgeting and Accounting System (SBAS). The State of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as, "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues recorded when received in cash. Full accrual accounting will be permitted if the need justifies the application." (Montana Operations Manual, 2-0240.40)

Fund Accounting

The funds are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The operations of each fund and account group are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance, revenue and expenditures.

Inventories

Inventories are expensed at the time of purchase.

General Fixed Assets

General fixed assets are recorded as expenditures at the time of purchase. Subsequently, they are recorded in the General Fixed Asset Account Group at cost or estimated original cost.

Depreciation is not recorded for general fixed assets.

Vacation and Sick Pay

Liabilities incurred because of unused vacation and sick pay by employees are not recorded. The related expenditure is recorded when paid. Permanent employees are allowed to accumulate and carryover a maximum of two years vacation into a new calendar year. Upon termination, qualifying employees

having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis of their current hourly rate. The amount of the unrecorded liability on the accompanying financial statements as of June 30, 1980 was not readily determinable.

NOTE 3. RETIREMENT PLAN

Employees of the State Auditors Office are covered by the Public Employees' Retirement System (PERS), a contributory plan under which the State contributes 6.2% of an employees gross wages and the employee contributes 6% of his gross wages. Each employees contribution is deposited in their individual account and accrues interest at the rate of 7% compounded annually.

NOTE 4. FIXED ASSETS

During fiscal year 1980, the office of the State Auditor has converted their fixed asset records to the Property Accountability Management System (PAMS), of the State of Montana. In addition, they have reflected the control total of fixed assets on the Statewide Budgeting and Accounting System.

Due to an oversight in the Department of Administration, some of the information which was submitted for processing was not processed until July, 1980.

Since we do not consider the resulting differences to be material, we have reflected the proper amount of fixed assets on the accompanying financial statements. Following is a summary of the differences noted.

Fixed assets reflected on SBAS - June 30, 1980	\$132,447.00
Fixed assets not recorded due to oversight by the Department of Administration	<u>18,494.00</u>
Fixed assets reflected on financial statements June 30, 1980	<u>\$150,941.00</u>

STATE OF MONTANA
OFFICE OF THE STATE AUDITOR
SCHEDULE OF EXPENDITURES BY OBJECT
ALL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

<u>EXPENDITURE OBJECT</u>	<u>Management and Control</u>	<u>Central Payroll</u>	<u>Administrative Support</u>
Personal Services			
Salaries	\$116,792	\$ 74,048	\$ 97,780
Fringe Benefits	<u>18,368</u>	<u>11,570</u>	<u>14,539</u>
Total Personal Services	<u>135,160</u>	<u>85,618</u>	<u>112,319</u>
Operating Expenses			
Contracted Services	52,242	103,776	498
Supplies and Materials	13,806	9,458	435
Communications	66,075	1,949	13,370
Travel	238	150	147
Rent	5,188	-0-	-0-
Repair	3,745	556	625
Other Expenses	<u>149</u>	<u>139</u>	<u>320</u>
Total Operating Expenses	<u>141,443</u>	<u>116,028</u>	<u>15,395</u>
Equipment	<u>2,601</u>	<u>1,204</u>	<u>7,795</u>
Local Assistance			
Transfers			
Total Expenditures	<u>\$279,204</u>	<u>\$202,850</u>	<u>\$135,509</u>

<u>Insurance Department</u>	<u>Investment Department</u>	<u>Fire and Police Distribution</u>	<u>Forest Reserve Shared Revenue</u>	<u>Fireman's Pension Distribution</u>	<u>Total</u>
\$269,186	\$65,432				\$ 623,238
<u>40,619</u>	<u>10,054</u>				<u>95,150</u>
<u>309,805</u>	<u>75,486</u>				<u>718,388</u>
12,748	582				169,846
3,444	595				27,738
33,994	1,479				116,867
12,070	1,981				14,586
3,074	-0-				8,262
1,044	215				6,185
<u>2,377</u>	<u>434</u>				<u>3,419</u>
<u>68,751</u>	<u>5,286</u>				<u>346,903</u>
<u>3,385</u>	<u>-0-</u>				<u>14,985</u>
			<u>\$8,258,492</u>		<u>8,258,492</u>
		<u>\$2,223,133</u>		<u>\$451,280</u>	<u>2,674,413</u>
<u>\$381,941</u>	<u>\$80,772</u>	<u>\$2,223,133</u>	<u>\$8,258,492</u>	<u>\$451,280</u>	<u>\$12,013,181</u>

STATE OF MONTANA
OFFICE OF THE STATE AUDITOR
SCHEDULE OF EXPENDITURES BY OBJECT
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 1980

<u>EXPENDITURE OBJECT</u>	<u>Management and Control</u>	<u>Central Payroll</u>	<u>Administrative Support</u>
Personal Services			
Salaries	\$120,482	\$ 76,269	\$109,777
Fringe Benefits	<u>22,988</u>	<u>13,754</u>	<u>19,052</u>
Total Personal Services	<u>143,470</u>	<u>90,023</u>	<u>128,829</u>
Operating Expenses			
Contracted Services	43,622	355,601	843
Supplies and Materials	22,645	14,660	2,282
Communications	60,386	5,000	11,947
Travel	92	-0-	159
Rent	12,009	4,470	6,988
Repair	9,245	580	1,631
Other Expenses	<u>390</u>	<u>200</u>	<u>961</u>
Total Operating Expenses	<u>148,389</u>	<u>380,511</u>	<u>24,811</u>
Equipment	<u>8,887</u>	<u>299</u>	<u>700</u>
Local Assistance			
Transfers			
Total Expenditures	<u>\$300,746</u>	<u>\$470,833</u>	<u>\$154,340</u>

<u>Insurance Department</u>	<u>Investment Department</u>	<u>Fire and Police Distribution</u>	<u>Forest Reserve Shared Revenue</u>	<u>Fireman's Pension Distribution</u>	<u>Total</u>
\$281,767	\$ 84,906				\$ 673,201
<u>49,371</u>	<u>14,909</u>				<u>120,074</u>
<u>331,138</u>	<u>99,815</u>				<u>793,275</u>
11,260	1,381				412,707
9,996	1,395				50,978
46,139	1,465				124,937
16,248	5,080				21,579
9,050	3,162				35,679
2,364	403				14,223
<u>1,688</u>	<u>1,870</u>				<u>5,109</u>
<u>96,745</u>	<u>14,756</u>				<u>665,212</u>
<u>1,349</u>	<u>-0-</u>				<u>11,235</u>
			<u>\$9,460,390</u>		<u>9,460,390</u>
		<u>\$2,755,456</u>		<u>\$528,431</u>	<u>3,283,887</u>
<u>\$429,232</u>	<u>\$114,571</u>	<u>\$2,755,456</u>	<u>\$9,460,390</u>	<u>\$528,431</u>	<u>\$14,213,999</u>

AGENCY REPLIES



STATE OF MONTANA

OFFICE OF
E. V. "SONNY" OMHOLT

STATE AUDITOR
COMMISSIONER OF INSURANCE
SECURITIES COMMISSIONER
CENTRAL PAYROLL SYSTEM

HELENA, MONTANA 59601

October 27, 1980

Holmes & Turner
Certified Public Accountants
300 North Willson
P. O. Box 1246
Bozeman, Montana 59715

Attention: Mr. James M. Brinkman:

Enclosed is the Montana State Auditor's response to the Holmes & Turner audit of fiscal years 1979 and 1980.

All of your recommendations have been answered.

Thank you for your helpful suggestions. I appreciate the businesslike manner you and your auditors employed while working in my office.

Sincerely,

A handwritten signature in cursive script that reads "E. V. 'Sonny' Omholt".

E. V. "SONNY" OMHOLT
State Auditor & ex officio
Commissioner of Insurance
Securities Commissioner
Director, Central Payroll

EVO:eh
encl.

Montana State Auditor's response to Holmes & Turner audit of Fiscal Years 1979 and 1980.

RECOMMENDATION #1

We recommend that the insurance department review applicable statutes pertaining to revenue recognition of examination fees, etc., and attempt to modify them to allow for timely recognition of revenue.

COMMENT

Concur. Review has already been accomplished. License fees were amended in the 1977 legislative session and such fees are now earned whether or not the license is issued. This is also true of appointment fees. Examination fees are subject to regulation #1 which allows six months for qualification before all fees are forfeited. Rather than duplicate work, all fees are held until expiration of the six month waiting period. Legislation will be proposed in the next session to have all fees fully earned on receipt. Regulation #1 will then be repealed.

RECOMMENDATION #2

We recommend that the insurance department contact the state records committee and obtain an official determination as to the length of time that insurance examinations should be retained.

COMMENT

Concur. Agent's examinations had been destroyed after a period of 30 days for security and confidentiality purposes. We are requesting that records retention committee grant permission for on-going destruction of such records.

RECOMMENDATION #3

We recommend that the insurance department either modify their renewal form for appointments of non-resident agents to include a retaliatory fee computation or consider modifying their regulations to allow for a flat fee for non-resident appointments.

COMMENT

Concur. Legislation is being proposed for the next legislative session to accomplish this. The subject of retaliatory fees is going to be heard by the California Supreme Court, hopefully in the near future.

RECOMMENDATION #4

We recommend that the insurance department retain appointment of agent files for at least two years or from the date of the last audit.

COMMENT

Concur. This has always been our intention. There was an inadvertent destruction of appointments for the period July 1, 1978 to June 1, 1979.

RECOMMENDATION #5

We recommend that the Securities department record temporary receipt numbers on the supporting documentation for broker/dealer renewals.

COMMENT

Concur.

RECOMMENDATION #6

We recommend that the agency review all personnel files, separate current payroll status forms from outdated ones, and compare the current information to the report of deductions for each employee.

COMMENT

Concur. A checklist is being devised.

RECOMMENDATION #7

We recommend that the agency improve their record keeping and filing procedures for terminated employees in order to properly substantiate termination pay.

COMMENT

Concur.

RECOMMENDATION #8

We recommend that the agency issue a warrant to a terminated seasonal employee who was undercompensated for vacation accruals at the time of termination.

COMMENT

Concur. A warrant has been issued to the terminated seasonal employee for the remaining amount of unused accrual of vacation and sick leave.

RECOMMENDATION #9

We recommend that the agency review it's record keeping procedures for employee leave and take the necessary steps to assure that employee leave is properly summarized for each employee.

COMMENT

Concur. However, the example shown in the report is misleading. The discrepancy is due to the fact that the employee indicated absence due to illness, which was correct, but as all sick leave had been used, the actual deduction had to be taken from vacation leave. This is the standard procedure and employees are required to sign permission forms to this effect. All leave records are double-checked at the end of each year.

RECOMMENDATION #10

We recommend that the agency strengthen its internal controls associated with travel expenditures by voiding travel receipts upon payment, requiring travel advances to be signed and requiring all travel requests to be authorized in advance.

COMMENT

Concur. Advance authorization for travel form is being redesigned to accommodate employee signature.

RECOMMENDATION #11

We recommend that the agency review their internal controls associated with accruals and take the appropriate action to assure that complete and accurate accruals are made at year end.

COMMENT

Concur.

RECOMMENDATION #12

We recommend that the agency review their internal controls associated with disbursements to local cities and towns and take the appropriate action to assure that accurate disbursements are made.

COMMENT

Conur.

RECOMMENDATION #13

We recommend that the agency thoroughly review and document all journal entries before they are inputted to SBAS.

COMMENT

Concur. One person will review and double check each entry on journal vouchers for correctness before they are input to the SBAS system at state accounting.

RECOMMENDATION #14

We recommend that the auditor's office fully document in their files any over and underpayment of funds to the various counties for payments made in lieu of taxes on federally-owned land.

COMMENT

Concur. Over and underpayments will be recorded in the federal national forest fund distributed to counties each year. "FY 80 was the first year in which the state received the national forest service monies in two increments, thereby Silver Bow county received more in the projected 75% of the forest monies distributed in October than their actual 100% payment received by the state auditor in January, the percentage ultimately worked out." This will be adjusted this fiscal year, as allowed for in the state statutes.

RECOMMENDATION #15

We recommend that the agency review their filing system for distributions made to counties and segregate the workpapers and documentation by fiscal year.

COMMENT

Concur. This has been accomplished.

RECOMMENDATION #16

We recommend that the agency contact the Department of Administration and review their responsibilities associated with the General Warrant Revolving Account.

COMMENT

Concur.

RECOMMENDATION #17

We recommend that the agency document their degree of responsibility associated with the General Warrant Revolving Account.

COMMENT

Concur.

RECOMMENDATION #18

We recommend that the agency perform the necessary accounting procedures to eliminate meaningless account balances with the non-consolidated general ledger for the general warrant revolving fund.

COMMENT

Concur.

RECOMMENDATION #19

We recommend that the agency capitalize the cost of freight associated with the purchase of fixed assets.

COMMENT

Concur.

RECOMMENDATION #20

We recommend that the agency record the estimated value of donated fixed assets in their property records and properly identify the assets involved.

COMMENT

Concur.

